SANDHÜTEL | REAL ESTATE WEEKLY

WEEK ENDING 25 OCTOBER 2026

More Room To Borrow From Wednesday. Inflation Just Made Every Pound Dearer.

3.5% CPI inflation, September

4.60% rate on new mortgages, August

28 Oct Budget day and new lending rules

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Week ending Sunday 25 October 2026 · sandhutel.com

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THIS WEEK AT A GLANCE

- Lenders will stretch income multiples just as inflation lifts the cost of lending.
- Sellers who price to the market will keep completing while the rest keep cutting.
- Investors will need income that outruns funding costs to hold their values.

Wednesday hands the mortgage market 2 things at once. The Chancellor stands up at around 12.30pm, and on the same day the PRA and FCA remove the firm-level cap on high loan-to-income lending. Access to credit widens in the same week that inflation made credit dearer to fund.

The timing matters more than either event alone. CPI rose to 3.5% in September from 3.1% in August, with services at 3.7% and core at 2.8%. That is the wrong direction for a market that needs cheaper money, and lenders will be pricing it in the same week borrowers learn they may be allowed to borrow more.

Last week's argument has held. The ONS release on 21 October showed rents still rising at 3.8% in September, while UK house price growth slowed to 0.9% in August. Income keeps compounding. Capital is still waiting on the cost of debt, and this week's inflation print lengthens that wait.

Policy can lift what a buyer is allowed to borrow. It cannot lower what the debt costs. That distinction will shape every property decision before the next Bank of England vote, from a first-time buyer's offer to an investor's exit yield.

RATES AND LENDING

Debt is costing more where it matters: at the point of drawdown. Bank Rate held at 3.75% in September, but 3 MPC members voted for 4.00%, and the minutes described tighter market rates passing through to mortgage pricing. The effective rate on newly drawn mortgages rose to 4.60% in August from 4.45%, against 4.00% on the existing stock.

Lenders are repricing faster than borrowers can plan. Moneyfacts puts the average product shelf life at 13 days in October, down from 14 in September and below the January to October average of 16. A price agreed today can outlive the deal that made the numbers work.

Buy-to-let shows how much activity is refinancing rather than conviction. UK Finance recorded 58,051 new loans in Q2, up 20.6% on a year earlier, but 39,631 were remortgages and purchase loans fell by 845 from Q1. The annual comparison flatters, because Q2 2025 was weak after purchases were pulled forward ahead of stamp duty changes. Interest cover held at 217% and arrears fell, so the book is sound. New money is not rushing in.

DEMAND AND TRANSACTION ACTIVITY

Buyers are still in the market. They are negotiating with more stock behind them. RICS buyer enquiries weakened to a net balance of minus 22 in September from minus 18, while new instructions stayed positive. Supply is building faster than demand, and sellers are paying for it.

Price cuts are now the market's main adjustment tool. Rightmove recorded more than 3,000 listing reductions a day in September, the most since September 2011, with around 34% of homes cut by an average of 6.6%. Of homes sold this year, 74% never needed a cut, and unreduced homes found a buyer in 39 days against 119 for those that were reduced. Association is not proof, but the lesson for sellers holds: the first price has to be the right one.

Headline indices sit near flat for the same reason. Nationwide put annual growth at 0.8% in September, Lloyds at 0.0%, and the official index at 0.9% in August. Wednesday's higher multiples may widen the buyer pool at the margin. They will not lower the monthly cost of the debt.

LONDON

London's 2.2% annual fall in August is a flats story. Detached and semi-detached prices in the capital rose 1.8%, terraced homes edged up 0.1%, and flats and maisonettes fell 5.0% to an average of £427,000. The headline blends 2 markets moving in opposite directions.

That split decides who gains from Wednesday's lending change. A high loan-to-income mortgage helps most where the ticket is large relative to earnings, and in London that means houses. In our experience the flat buyer's constraint is rarely the size of the loan. It is the service charge, the building and the resale market, and no income multiple fixes those.

Prime is pricing on its own terms. Knight Frank reports prime central London prices up 0.3% in the quarter to September, the first positive quarter in 4 years, while completed prices fell in 22 of 33 London local authorities over the year to August. Rightmove has London asking prices up 2.5% in October with 38% of listings reduced. Ambition at listing has not yet met discipline at completion.

COMMERCIAL PROPERTY

Commercial property makes the same point at institutional scale. CBRE has Q3 all-property rental values up 0.5% and capital values down 0.9%, while Savills reports prime office yields moving out 25 basis points in the City, the West End and Manchester. Rents are rising. The return investors demand is rising faster.

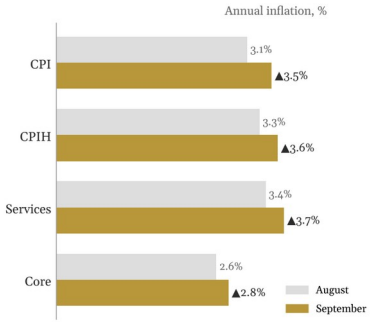
Where income growth is strong enough, it still wins. SEGRO secured an average uplift of 43% on UK rent reviews, renewals and regears, with occupancy at 94.7% and loan-to-value at 33%. That is one specialist portfolio, but it shows the reversion now needed to outrun the cost of capital.

REGULATORY AND POLICY DEVELOPMENTS

The high loan-to-income change is real, but narrower than the headlines will make it. From 28 October, individual lenders lose the firm-specific 15% cap on lending at or above 4.5 times income, while the system as a whole stays inside the Financial Policy Committee's 15% limit. Affordability testing remains. Some lenders will stretch. Others will not.

The Budget is the larger unknown, and we will not guess at it. What matters for owners sits in the published documents: rates, thresholds, effective dates and who carries the cost.

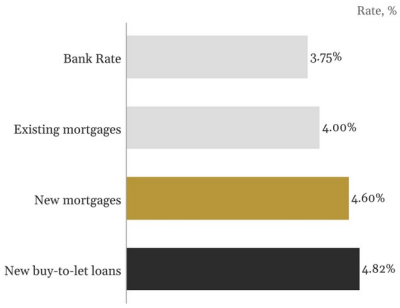
Commercial landlords have a clearer runway. The government has dropped the proposed 2027 EPC C milestone and intends EPC B from 2031 for rented non-domestic buildings over 1,000 sq m in England and Wales, where cost-effective. It is a proposal, not law, but capital plans can now work to one date.



INFLATION MOVED THE WRONG WAY

CPI rose to 3.5% in September from 3.1% in August. Services inflation rose to 3.7% and core to 2.8%.

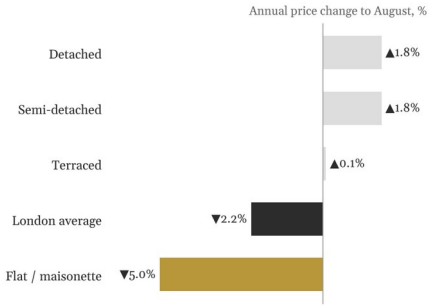
Source: ONS consumer price inflation (Sep 2026)



NEW DEBT IS DEARER THAN OLD DEBT

New mortgages were drawn at an effective 4.60% in August, up from 4.45%, against 4.00% on existing loans. New buy-to-let loans averaged 4.82% in Q2.

Source: Bank of England (Aug 2026; Sep MPC); UK Finance buy-to-let (Q2 2026)



LONDON'S FALL IS A FLATS STORY

London prices fell 2.2% in the year to August. Flats fell 5.0% while detached and semi-detached homes rose 1.8%.

Source: HM Land Registry UK HPI, London by property type (Aug 2026)

CONSUMER PRICES	PURCHASE APPROVALS	DEAL SHELF LIFE	HOMES REDUCED
▲3.5%	▼54,900	▼13 days	▲34%
Sep CPI, up from 3.1% in Aug	*Aug, down from 55,900 in Jul*	*Oct, from 14 days in Sep*	*Sep, average cut of 6.6%*

Sources: ONS CPI (Sep 2026); Bank of England Money and Credit (Aug 2026); Moneyfacts (Oct 2026); Rightmove (Sep 2026)

DAVID'S VIEW

More credit is not cheaper credit.

I spent years setting credit appetite inside a bank, and a cap removed is a permission, not an instruction. Lenders will use the new high loan-to-income room where their risk models already wanted to go, and price it for the funding conditions this week's inflation figures describe.

That is where the Rates and London sections meet. The extra multiple helps a house buyer more than a flat buyer, because the flat buyer's constraint was never the multiple. The borrower who stretches carries more debt into a market where funding costs are rising.

Commercial property runs on the same rule. Rents are rising, yields are moving out, and only assets with real reversion are winning the race between rent and yield. This market rewards income you can prove and debt you can service at today's price.

At Sandhütel, we size every loan on the rate we can lock now and stress it at a higher one. A bigger multiple changes what we could borrow. It does not change what we will.

> *"Lenders can lift the multiple. Nobody in Westminster can lower the rate."*

THE WEEK AHEAD

Wednesday 28 October is the key date. The Chancellor delivers the Budget at around 12.30pm and the high loan-to-income rules take effect the same day. We will read the published documents for tax measures, effective dates and fiscal forecasts before drawing any conclusion for owners.

Tuesday 27 October brings the BCIS price adjustment indices, a read on contract cost inflation. Thursday 29 October brings Bank of England Money and Credit with September approvals and new mortgage rates, and Friday 30 October brings HMRC's September transactions. The last 2 show whether demand held into the autumn.

David R. Sandhu

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